

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF POSTAL SERVICE WITNESS TANG
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.
(MPA/USPS-T35-18-20, AND 22)

The United States Postal Service hereby files the responses of witness Tang to the above-listed interrogatories, filed on July 18, 2006. Interrogatory MPA/USPS-T35-21(a) was redirected to witness Waterbury, and interrogatory MPA/USPS-T35-21(b-c) was redirected to witness Kelley (USPS-T-30).

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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MPA/USPS-T35-18. Please refer to the version of worksheet "Discounts" in USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls. Please confirm that the unit mail processing cost estimates in this worksheet do not reflect the errata to USPS-LR-L-43 filed on June 28, 2006.

RESPONSE:

Confirmed.

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MPA/USPS-T35-19. Please refer to the following statements in the document entitled "Summary of Changes to LR-L-126," which is attached to the notice of errata to Library Reference L-126 filed by the Postal Service on July 13, 2006:

1. Page 2 – "However, in worksheet "Piece Discounts", cell C3, "required revenue", the total fees used as an input to the formula has been held at the original 18,072,000, in order to maintain the proposed rates."
2. Page 3 – "The original ride-along revenue is used as an input in the formula to derive "required revenue" (cell C3) in worksheet "Piece Discounts," in order to maintain the proposed rates."
3. Page 5 – "Revised TYBR and TYAR cost [sic] numbers (see witness Waterbury's errata filed on July 11, 2006) have been included in worksheet "FY 2008 Summary"... These updated costs are included only in the final financial summary to show the adjusted cost coverages for both Outside County and Within County. They are not included in the rate design inputs, so that the proposed rates are maintained."

As the above statements from the "Summary of Changes to LR-L-126" document indicate, you have "held" some figures at their original values "in order to maintain the proposed rates."

(a) Please provide a list of all cells in which you have "held" values or formulae at original values "in order to maintain the proposed rates."

(b) For each of the cells listed in subpart (a) of this interrogatory, please provide the corrected value or formula.

RESPONSE:

(a-b) The cells in which I have held values or formulae at original values in order to maintain the proposed rates have been listed in "Summary of Changes to LR-L-126," which is attached to the notice of errata to Library Reference L-126 filed on July 13, 2006. These cells are:

- In worksheet "Piece Discounts", cell C3, "required revenue", the total fees used as an input to the formula has been held at the original 18,072,000, in order to maintain the proposed rates. The revised fees amount is 19,159,320. Also in cell

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C3, the original ride-along revenue is used as an input in the formula to derive required revenue by using the current ride-along rate of \$0.131, not the proposed rate of \$0.155.

The correct formula in cell C3 in worksheet "Piece Discounts" is: $=((\text{'Rate Design Input'!C10} * \text{'Rate Design Input'!C12}) - \text{'Rate Design Input'!C14} - \text{'Rate Design Input'!C28} * \text{Fcst!08!C9} * \text{'Hardwired #s'!D5}) / \text{'Rev.Adj+Ed.Cont'!D12}$.

- At stated in the "Summary of Changes to LR-L-126," revised TYBR and TYAR cost numbers have been included in worksheet "FY 2008 Summary". These updated costs are included only in the final financial summary to show the adjusted cost coverages for both Outside County and Within County. If they were included in the rate design inputs, the value in cell C11 in worksheet "Rate Design Input" would be 2,250,111,030.

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MPA/USPS-T35-20. Please refer to POIR No. 6, Question 1, which requests estimates of current and proposed per-piece postage for seven publications. For each of the publications, please provide Postage Statement information in sufficient detail to allow the replication of your results.

RESPONSE:

The detailed postage calculation is available in the spreadsheets filed on August 3, 2006, with the revised response to POIR No.6, Question 1.

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MPA/USPS-T35-22. Please refer to USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls, worksheet "Pound Data_Adv, cell E57, which contains the formula "E59-D59-(E48-E49)."

(a) Please confirm that the purpose of this formula is to calculate the transportation cost (less dropship discount) per pound for DSCF-entered Periodicals. If not confirmed, please explain fully.

(b) Please confirm that the DSCF transportation cost per pound is calculated by subtracting the Zones 1&2 distance-related transportation cost per pound (D59) from the total Zones 1&2 transportation cost per pound (E59). If not confirmed, please explain fully.

(c) Please confirm that the DSCF dropship discount subtracted by the formula in cell E57 from the DSCF transportation cost per pound equals the DSCF dropship discount (E48) net of the DADC dropship discount (E49).

(d) Please confirm that the DSCF dropship cost avoidance (from which the DSCF dropship discount is calculated) was calculated relative to Zones 1&2 Periodicals. If not confirmed, please explain fully.

(e) Please explain fully why the formula in cell E57 subtracts the DSCF dropship discount (net of the DADC dropship discount) from DSCF transportation costs, rather than subtracting the *entire* DSCF dropship discount from DSCF transportation costs.

RESPONSE:

The rate design for the advertising pounds, as shown in worksheet "Pound Data_Adv," has four major steps:

1. Allocate the distance-related transportation cost using pound miles to all rate cells from DADC to Zone 8.
2. Add non-distance related transportation cost to all rate cells from DSCF to Zone 8.
3. Subtract handling costs incrementally at each dropship cell, starting with zones 1&2 to derive DADC, DSCF, and DDU rates.
4. Add the residual revenue requirement to each rate cell.

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(a-b) In this light, "E59-D59" in the formula "E59-D59-(E48-E49)" refers to (and can be replaced by) cell C43, which is the non-distance related transportation cost per pound.

The purpose of this formula is to subtract the avoided handling cost from the non-distance related transportation cost, at the DSCF level.

(c) Confirmed that the DSCF dropship discount subtracted by the formula in cell E57 from the non-distance related transportation cost per pound equals the DSCF dropship discount (E48) net of the DADC dropship discount (E49).

(d) Confirmed.

(e) Please see the opening paragraph to this response.